CCPC

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1M OET

11 August 1986

Dear Paul,

W 11/8

RE-NEGOTIATION OF THE COCOA AGREEMENT

When Peggy Fenner wrote to you on 25 July she said I would write again when the Conference was over to inform you of the outcome and to give you my assessment of it. At the final session of the negotiating Conference on 1 August the text of the new agreement - the International Cocoa Agreement 1986 - was adopted. A copy has gone to your officials together with a detailed account of the negotiations and an analysis of the text.

We had hoped and indeed expected that by encouraging the adoption of the toughest possible position within the consuming countries' camp, the producers, and particularly the Ivory Coast, would be confronted with a package they would reject, and that the Conference would therefore fail. We were largely successful in encouraging a strong consumer stance, but to our surprise, when confronted with it, producers' resistance, including even that of the Ivory Coast, collapsed.

The proposed agreement contains the following elements which we had identified as being of importance to us:-

(i) the price range is centred on the equivalent of US 103 cents/lb (ie below 105 cents/lb);

(ii) there is no obligatory buying above a price equivalent to 85 cents/lb;

(iii) the price range of the agreement is denominated in the SDR basket to take account of currency fluctuations;

/(iv) when ....

(iv) when 75,000 tonnes is purchased/sold into the buffer stock within 6 months, a 6 cents/lb equivalent price adjustment downwards/upwards is triggered; thus a price cut of 12 cents/lb can occur before the buffer stock is full;

(v) the Buffer Stock Manager is forbidden to operate on terminal markets;

(vi) producers representing 80% of exports (ie including the Ivory Coast) have to join the agreement before the buffer stock provisions can be implemented;

(vi) UK texts which prohibit borrowing and limit the financial liability of members of the Council;

(viii) provisions for orderly liquidation should this ever be necessary, safeguarding the interest of consumer countries in a share of the proceeds.

In the few cases where the text could be held to run counter to our agreed line the delegation have recorded a reservation. I need only mention two. One relates to consumer participation in an Agreement, where we tried to secure the adoption of the same provisions as in the 1980 Agreement namely a requirement that consumers accounting for 70% of imports should participate. The text (on which only the UK has a reservation) allows provisional application with 60% consumer participation. There is also provision for the Agreement to make use of the financial possibilities of the Common Fund. But this will have no practical effect; as our Review put it "the Common Fund is a dead letter".

In terms of attaining our objectives the outcome is much more satisfactory than I would have thought possible beforehand. As I have explained before I am not enthusiastic about a Cocoa Agreement. If we could start entirely afresh I would not want any Agreement. But as we recognised in the Review we must have regard to the constraints imposed on us by the EC dimension and we must also maintain some negotiating coherence and credibility. The outcome is so close to the consumers' position that it is virtually certain that, as matters stand, a qualified majority in the EC will, in due course, whatever our position, be found for EC accession. In that case we would be virtually forced to accede also.

However, we have not reached that stage yet. If producers representing 80% of exports and consuming countries representing 60% of imports have not given notice of at least provisional application of the agreement by 1 October, and this seems most unlikely, there will be a hiatus thereafter. But in order to deal with this likely gap and retain the buffer stock resources, the Council of the 1980 Agreement, meeting in early September, will consider the legal framework for a transition period. Also, some time after 1 October the Secretary-

/General of ....

General of the UN is likely to call a meeting to consider the way forward as provided for in the new Agreement. I propose that at these meetings the UK delegation should work to ensure that any decisions are compatible with the legal requirements, but should not oppose in principle the installation of some bridging mechanism before the 1986 Agreement can take effect if, as seems likely, it is the general wish to provide one. This bridging mechanism should maintain the status quo, ie it should certainly not allow the market intervention provisions to be activated in any way.

Because of this residual uncertainty I suggest we should not finally decide now on UK participation in the 1986 Agreement, although as I indicate the probability must be that we will need to accede. After the September/October meetings matters should have clarified sufficiently to allow me to put forward a specific recommendation. However, I would not propose at this stage that if the point arises we should seek to circumvent normal UK Parliamentary procedures for putting into force an international agreement.

I am copying this to the Prime Minsiter, Geoffrey Howe, John MacGregor and to Sir Robert Armstrong.

Yours Ever

Michael

MICHAEL JOPLING

TRADE Volume of Trade P3

018/2769

C&G

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

8 September 1986

Dear Michael,

RENEGOTIATION OF THE COCOA AGREEMENT

at flag.

I have seen your letter of 11 August to Paul Channon and Janet Young's and Paul Channon's replies of 26 and 27 August. I share Paul's view that though the terms of the new Cocoa Agreement are unexpectedly favourable it would, ironically, have been far more helpful to our recently agreed "deregulatory" approach to commodity policy if the renegotiations had failed!

I recognise that a qualified majority for accession to the Agreement in the EC would, as you say, virtually oblige us to accede too. I therefore strongly support Paul's and Janet's suggestions that we should make what moves we can to persuade our Community partners that the new Agreement is not good enough. It would clearly be helpful, in the first instance, if others as well as ourselves do not give notice of provisional application of the agreement by the required 1 October date. If we do not adopt this approach we shall find it all the harder to stay out of a new Rubber Agreement if one is renegotiated and our deregulatory policy might be judged to have failed.

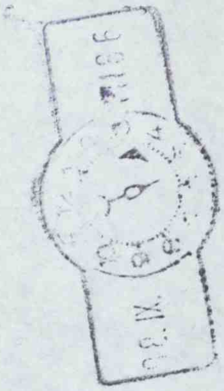
I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon and to Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

CONFIDENTIAL



2PPS wlBo

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

27 August 1986

The Rt Hon Michael Jopling MP
Minister of Agriculture
Fisheries and Food
Whitehall Place
London
SW1

MB7/m

Dear Michael,

RENEGOTIATION OF THE COCOA AGREEMENT

Thank you for your letter of 11 August about the renegotiation of Cocoa Agreement. Like you I am surprised by the outcome. In one sense it is unexpectedly favourable: but in another it would have been better in terms of our broader policy objectives for no agreement to have materialised.

In spite of the merits of the Agreement now reached we need to assess it, I suggest, against the criteria I put forward in my letter of 6 February. I then made 5 specific points on the line we should take:

(a) On the question of price. I was concerned particularly at the level at which support buying could take place: I said that I was sure that no support buying should be permitted above 85 cents. The final Agreement appears to allow support buying at 88 cents.

(b) I suggested that automatic price adjustment provisions were essential and should be sufficiently flexible to absorb a major fall in the market. At the time we were working on a proposal which provided for 5 cent reductions at each 50,000 tonne purchase into the buffer stock. The final Agreement includes a mechanism which provides for 6 cent reduction at each 75,000 tonne purchase This is worthwhile flexibility but not quite as much as we were hoping for.

CONFIDENTIAL

DW5AUH

CONFIDENTIAL

(c) I agreed that it was essential that the target figures for participation should be met. I am glad that we have maintained a reservation on the reduced requirement for consumer participation. Continued American abstention which is apparently expected must surely undermine the credibility of the Agreement.

(d) I am particularly glad that you have achieved satisfactory texts on borrowing forward transactions financial liabilities and provision for orderly liquidation. These are of course the key financial provisions. I am though disappointed that it was necessary to make special mention of the Common Fund.

(e) I had understood that the buffer stock in the new Agreement was to he limited to 250,000 tonnes. I was disappointed to see that it had not been possible to avoid a provision to allow for the buffer stock to be increased by a further 100,000 tonnes if the Agreement is extended after its initial 3 year period.

I agree that we need not finally decide now on UK participation in the new Agreement. But we must surely be clear what attitude to take towards it in discussions in the Community. These will probably start very soon. I feel sure we must work to persuade our Community partners that although this Agreement is a major improvement the improvement is not sufficient for Community countries to join it. As you say, unless we can convince some of them we may be required to join it ourselves. I am therefore pleased to note that your officials have lodged a number of reservations on which we might build some credible resistance.

I see there is likely to be a breathing space before the new Agreement can take effect during which we could maintain the status quo. This should provide time for us to make a concerted effort to muster a blocking minority in the Community.

I would hope therefore that in the discussion of any bridging mechanisms before the 1986 Agreement can take effect we would not be committing ourselves to them - still less to the new Agreement.

I am copying this to the Prime Minister, Geoffrey Howe, John MacGregor and to Sir Robert Armstrong.

Yours,
Paul

PAUL CHANNON

DW5AUH

CONFIDENTIAL

TRADE

TIN

PT3

COBG

Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

26 August 1986

CDP - Free

CDP 29/8.

Dear Michael,

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT

In Geoffrey Howe's absence on leave I should like to comment on some of the points in your letter of 11 August to Paul Channon about the outcome of the Conference to renegotiate the International Cocoa Agreement.

Like you, we had assumed that the producers would reject our conditions and that the Conference would fail. The collapse of the producer position requires us to address the unwelcome task of planning the next move in extra time after what we had hoped was to be the final whistle. As you acknowledge, the number of positions available to us is limited.

The text of the new Agreement conforms closely to the mandate endorsed by Ministers in February. There can be no guarantee that it will ensure the operation of a price stabilising regime without financial stress or undue interference with market forces. But there are several important points in its favour. Finance is generated from the cocoa trade rather than the Agreement's members, and borrowing is not permitted. The price range will be denominated in SDR's, thus avoiding the adverse effects of currency fluctuations - something to which I understand the British cocoa industry attaches great importance. There is provision for more automatic price adjustment. Unlike the 1980 Agreement, the new

/Agreement's

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

Agreement's economic provisions cannot in any circumstances be brought into force unless at least five producers accounting the 80% of world cocoa exports have joined. The new Agreement makes clear that there would be no question of financial responsibility upon governments if the Agreement eventually fails or is wound up: so there is no prospect of a repetition of the tin fiasco. I therefore consider that the new Agreement offers the prospect of a more economically sound and financially prudent instrument than any other Agreement in this field, and to that extent meets the conditions laid down in the interdepartmental review of commodity policy.

But the most stringent economic provisions will not enable an Agreement to operate effectively unless a substantial percentage of producers and consumers participate. The 80% producer membership requirement for both provisional and definitive application of the new Agreement is in my view satisfactory. This figure means that unless Cote D'Ivoire joins, the economic provisions of the Agreement will remain inoperative, even if those producers and consumers who have joined decide to bring the Agreement into force with lower membership percentages than the text requires. We should nevertheless insist within the European Community that notification of provisional application by the Community and its member states should be contingent upon similar action by Cote D'Ivoire. This will present a tricky problem of timing and tactics. Even if, however, the Community found itself outmanoeuvred in that Cote D'Ivoire backed off at the last moment, the consequence would be an administrative Agreement shorn of all its market intervention provisions.

The 60% requirement for consumer membership does not correspond to our target of 70%. To achieve that figure would require the USA (which represents 22.5% of world imports) to join the new Agreement. They are unlikely to do so but we are in touch with them. It will also be worth lobbying the Malaysians to try to persuade them to join the new Agreement, thus increasing the producer total by a further 6%.

/Now

Now the negotiation of the Agreement is over and both consumers and producers have accepted the text, the probability is that our Community partners will be ready to join it as it stands. This raises the question of the UK's reservations on a number of the Agreement's provisions, for which it appears we have little support within the Community. We should explore the prospect of mustering a blocking minority of our Community partners on these provisions. But even if we were able to persuade a sufficient number of our partners to accept our position of substance, I doubt that they would be prepared to obstruct Community membership of the Agreement over issues that they regard as comparatively minor. If this proves to be the case we will be required to join the Agreement along with the Community's other member states. At that point we should signal our doubts about the points on which we have reserves by making a statement for the minutes of the relevant Council meeting, and then lift the reserves.

I agree that we can defer a final judgement until after the September meeting of the Cocoa Council. But the Commission is likely to bring forward proposals for the Community and member states to sign and provisionally apply the new Agreement before the 1 October deadline. If a qualifed majority of our partners favours membership, and the UK therefore has to join the Agreement, it will be desirable - particularly in view of the UK Presidency - to act quickly in order to complete the domestic procedures necessary for provisional application by 1 October. With Parliament in recess, we shall need to find alternatives to our normal scrutiny procedures. Meanwhile it would be prudent to instruct officials at the Cocoa Council to seek support for deferring any meeting that might be called by the UN Secretary-General until December. Our aim would be to ensure that, if we and the Community decide to join the Agreement, there would be no bar to the UK being invited to this meeting, which will be restricted to those who have joined the Agreement.

I am copying this letter to the Prime Minister, Paul Channon, John MacGregor and to Sir Robert Armstrong.

Yours ever

Janet

Baroness Young

TRADE
TIN
PT 3

cc P

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

DN / to see
CDP
25/7.

From the
Parliamentary
Secretary

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1M OET

25 July 1986.

CONFIDENTIAL

My dear Paul,

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT: GENEVA, JULY 1986

WILL REQUEST IF REQUIRED

Thank you for your letter of 22 July to Michael Jopling. Since he is out of touch today I am replying on his behalf.

As Michael stated in his letter of 18 July when the current negotiations are concluded he will write again to colleagues with recommendations on the position we should adopt on the result. Meanwhile our delegation will, of course, argue forcefully for an outcome that is compatible with their instructions. These are defined in the papers attached to Michael's letter of 29 January to you as supplemented by his letter of 4 July. The considerations you mention in your letter were all fully evaluated in that context. In addition, of course, the paper on the review of commodity policy which you minuted to the Prime Minister on 30 June explicitly recognised (in paragraph 1.8) that the negotiating mandate previously agreed for the cocoa negotiations should stand.

On a more detailed point I agree that when the negotiations are concluded we may need to consider, inter alia, whether to lobby other countries, notably the US and Malaysia, to join a new Agreement. But we will need to take careful account of a number of factors before we do so including the possibility that we could in future wish to reject similar pressure to join International Commodity Agreements. Michael will, if appropriate, deal with this factor when he writes again, but our first impression is that, whatever the specific merits, it could be difficult to reconcile our present line on commodity issues with active pressure on other states to join Agreements.

I am copying this letter to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.

Yours ever,

Peggy

PEGGY FENNER